



**Report to the Senior Executive Council,  
Department of Defense**

## **FINANCIAL AUDIT STRATEGY TASK GROUP**

### **Report FY04-2**

- **Recommendations related to integrated strategies for resourcing, communications and governance within the Department to achieve a clean audit opinion**

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**December 2004**

**FINANCIAL AUDIT STRATEGY  
TASK GROUP REPORT**

**TASK**

This DBB Task Group was formed in support of the Department of Defense (DoD) goal to achieve a clean financial audit opinion by 2007. Specifically, this Task Group was asked to provide recommendations on an approach for the Department with respect to the financial audit process and governance. Given the size of the DoD, the complexities of the financial management issues, and the need to mobilize a large internal and contracting workforce to conduct the audit, the Department sought to understand whether the appropriate processes were in place to facilitate the audit process. This report represents the findings and the advice of the Defense Business Board (DBB) on this topic.

The Terms of Reference (TOR) assigning this task to the Board requested recommendations related to the following specific topics:

1. Planning process;
2. Staff development and training;
3. Roles and responsibilities in an audit;
4. Change management/culture change required;
5. Internal and external communications strategy.

Task Group Chairman: William Phillips

Task Group Members: Neil Albert, Robert Hale, James Kimsey, Andrew Siegel

Task Group Sponsors: Deputy Chief Financial Officer, DoD

Task Group DoD Liaison: Gene Reardon, Office of Inspector General for  
Auditing, Jonathan Witter, USD(Comptroller) Accounting and Financial  
Policy Analysis Directorate

Task Group Executive Secretary: Kelly S. Van Niman

## **PROCESS**

During the initial discussions with the Task Group Sponsor, and based on the input of the Task Group Liaisons, it was agreed that the Task Group would narrow its focus to develop recommendations benchmarked on private sector best practices related to the following deliverables:

1. Resourcing: A strategy for ramping up and training staff; funds management;
2. Communications: A strategy to communicate, internally and externally, key audit themes;
3. Roles and Responsibilities: Recommendations with respect to the interaction between DoD management and external auditors, and the role of an “audit committee.”

The Task Group gathered background information on the financial audit process by attending Industry Days hosted by the Department of Defense/Inspector General (DoD/IG), and through discussions with individuals in the DoD/IG and Comptroller organizations. Task Group also conducted several best practice interviews with individuals in the public and private sectors who have responsibility for their organization’s financial audit process, as well as leaders in the accounting community. The DBB extends its sincere gratitude to the following organizations for their insights and guidance to the Department:

- Department of Energy
- Department of Homeland Security
- Government Accountability Office (GAO)
- United States Coast Guard
- Pennsylvania State Deputy Auditor
- Capitol One
- LCC International
- KPMG
- PricewaterhouseCoopers

Unlike the private sector where the audit process is part of the daily business culture throughout the company, the Department’s senior management will face a significant challenge raising the visibility and priority for a financial audit process and the associated requirements, i.e., funding for auditing systems and personnel staffing. To be successful, other government agencies stressed the need to have a

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single official with responsibility and authority to direct needed actions. And a common success theme shared by those in the private and public sectors was the need to ensure communication and coordination among the external auditor, and the Chief Financial Officer (CFO) organizations at headquarters and in the field.

In general, the Task Group found much to applaud about how the Department is approaching the financial audit process. However, greater participation by the DoD/IG in defining business rules, and linkage across the Department between individual performance and reaching incremental goals to support a clean audit opinion were seen as critical to the Department's success. See the attached Task Group report for detailed observations from these interviews.

## **RECOMMENDATIONS**

The following are highlights of the Task Group's recommendations. Detailed recommendations can be found in the attached report.

- Create an integrated strategic plan
  - Focus on intermediate goals
- Step up communications effort
  - Secretary of Defense involvement
  - Clear, simple themes to “sell” audit
- Align people and money to the plan
  - Centralize management of funds to support audit preparation and audits
  - Synchronize resources to strategic plan
- Improve audit governance process
  - Create senior advisory group to help “sell” audit

Respectfully submitted,

William R. Phillips  
Task Group Chairman

Attachment: Financial Audit Strategy Task Group Final Presentation